

Chairperson: Steve Cady, 278-4347

Clerk: Jodi Mapp, 278-4073

SELECT COMMITTEE ON DEFERRED COMPENSATION

Monday, July 28, 2008 – 9:00 a.m.

Milwaukee County Courthouse - Room 203-P

MINUTES

PRESENT: Mark Grady, Susan Walker, *Rick Ceschin, Jackie Russell, and Steve Cady (Chair)

*Rick Ceschin was not present at the time of roll call but appeared shortly thereafter.

SCHEDULED ITEMS:

**** CLOSED SESSION ****

The Committee may adjourn into closed session under the provisions of Wisconsin Statutes, Section 19.85(1)(f), for the purpose of discussing the following matter(s). The Committee may reconvene into open session to take whatever action(s) it may deem necessary on the said matter(s).

The Committee did not go into closed session.

1. 08DC23 Appeal(s) from deferred compensation participant(s) of decisions regarding request(s) for hardship withdrawal(s) of funds from Milwaukee County's Deferred Compensation Plan.

There were no appeals.

00:12 The Chair indicated that the new process on hardship appeals has been instituted. Now, appeals go directly to Great-West staff in Denver as opposed to being done on sight. This provides greater uniformity and more formal communications with participants.

2. 08DC24 Financial Update on Administration of Milwaukee County's Deferred Compensation Plan.

00:08 The Chair explained this quarter's report (copy attached to original minutes) reflects a continuation of the fee holiday. The result of the continued fee holiday is a reduction in the forfeiture account balance, which was the goal. Also included in the report are estimates of this year's expenses and expected revenue. Revenue includes interest on the forfeiture account and revenue sharing under the current agreement.

SCHEDULED ITEMS (CONTINUED):

Questions and comments ensued.

ACTION BY: (Grady) Extend the Administrative Fee Plan Holiday an additional quarter through the fourth quarter of 2008. 5-0

AYES: Grady, Walker, Ceschin, Russell, and Cady (Chair) – 5

NOES: 0

3. 08DC25 Second Quarter 2008 Performance Report from Ennis Knupp and Associates.
(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)

APPEARANCES:

Laurel Nicholson, Ennis Knupp and Associates

Maritza Martinez, Ennis Knupp and Associates

00:16 Ms. Nicholson stated that it has been a tough time to be in the financial markets. There is rising inflation and talk of a recession. The markets are responding to a lot of different things. There continues to be problems in the mortgage market. Financials in general have just been in turmoil and have been hit hard. Oil prices continue to be very high, and there is a decline in consumer confidence. Ms. Nicholson indicated the market is, however, beginning to show some good signs. There are strong corporate earnings out there, and there is good price to earnings ratios on many companies outside of the financial sector. Price to earnings ratio indicates what the market is willing to pay for the earning stream of certain companies so that the higher those ratios, the more they are willing to pay. This indicates good business fundamentals. Ms. Nicholson went on to state despite all of that, the general feeling is that these tough times are not going to quickly be rectified, and they are probably going to continue. It is thought that the current state of the economy is not a permanent situation. It is felt, however, that future stock market returns will be more tempered and that the risk premium between bonds and stocks will be smaller or closer.

Ms. Nicholson provided the Committee with an update as it relates to the Second Quarter 2008 Performance Report (copy attached to original minutes). Areas of the report highlighted included the Market Environment (U.S. Market, International Market, and Bond Market), Fixed Income Funds, the investment outlook, and Ennis Knupp's view on current markets. She also discussed overall fund performance for Milwaukee County's Plan and the Ariel Appreciation Fund in detail. A full copy of the Second Quarter Investment Report is posted on the County Board's Deferred Compensation web page along with other recent investment reports.

Questions and comments ensued.

The Committee took no action regarding this informational report.

SCHEDULED ITEMS (CONTINUED):

4. 08DC26 Report from Ennis Knupp and Associates, regarding Mid Cap Blend and Socially Conscious Funds Comparison.

APPEARANCES:

Laurel Nicholson, Ennis Knupp and Associates

Maritza Martinez, Ennis Knupp and Associates

- 00:12 Ms. Nicholson stated Ennis Knupp started this process by asking Great-West to provide a list of available actively managed funds on their platform that could possibly serve as a replacement for the Ariel Appreciation Fund. Ariel fills two boxes within the Plan. It is a mid cap offering as well as being a socially conscious fund. Great-West provided a list of three funds, and Ennis Knupp included an index fund (Vanguard) for comparative purposes. The funds reviewed are Ariel Appreciation Fund (current fund), Vanguard Mid Cap Stock Index, Fidelity Levered Company Stock, Aston/Optimum Mid Cap, and Oppenheimer Small & Mid Cap Value, which are all mid cap funds and are in the same category as the Ariel Appreciation Fund. Basic information was compared on the four funds. She emphasized that this information does not represent a manager's search. They have not done a due diligence analysis on the actively managed funds. She described each fund in detail comparing their performance, Morningstar rankings, and fund and return characteristics.

Discussion ensued at length regarding replacing the Ariel Appreciation Fund.

- 27:31 Ms. Nicholson continued by exploring socially conscious funds. She stated Ennis Knupp started by asking Great-West to provide a list of available socially conscious funds regardless of style, capitalization, and asset class. The funds reviewed are Winslow Green Growth, Spectra Green, Calvert Large Cap Growth, Timothy Plan Large/Mid Cap Value, Pax World Balanced, Calvert Social Investment Bond, and Parnassus Fixed Income. It should be noted that other socially conscious funds may be administered by Great-West if an agreement is reached between the mutual fund and Great-West. This process typically takes sixty days or so according to Darryl Collier of Great-West. She described each fund detailing their performance, Morningstar rankings, and fund and return characteristics.

ACTION BY: (Ceschin) Begin the process of replacing Ariel Appreciation Fund with Vanguard Mid Cap Index Fund and authorize Ennis Knupp to do a fund search for a socially conscious fund once requested data is received from Great-West. 5-0

AYES: Grady, Walker, Ceschin, Russell, and Cady (Chair) – 5

NOES: 0

SCHEDULED ITEMS (CONTINUED):

5. 08DC27 From Ennis Knupp and Associates, memorandum regarding Vanguard International Index Funds.

APPEARANCES:

Laurel Nicholson, Ennis Knupp and Associates

Maritza Martinez, Ennis Knupp and Associates

- 00:12 The Chairman stated he receives an informational package from a Vanguard representative due to the multiple funds in the Plan offering. The representative alerted him that a new option was being offered that might be of interest. The option was forwarded to Ennis Knupp for review. In turn, they issued the memorandum (copy attached to original minutes) that is before the Committee.
- 00:46 Ms. Nicholson stated the Plan currently offers the Vanguard Total International Stock Fund. The expense ratio is 0.27% or 27 basis points. The fund offers very broad and diversified exposure to the markets excluding Canada. The fund is constructed of three regional index funds, the European Stock Index Fund, the Emerging Markets Stock Index Fund, and the Pacific Stock Index Fund. Together, they create broad international stock market exposure. Recently, Vanguard announced that they removed their purchase fee on one of their other international index funds, the FTSE All-World ex-U.S. Index Fund, which is in a lot of ways similar to what is currently being offered. However, it is constructed a little bit differently. It invests directly in the stocks held in that index instead of underlying mutual funds, and it includes exposure to Canada. With the 25 basis points purchase fee being removed for investments of over \$5 million, the expense ratio is 15 basis points. This represents a 12 basis point or 44% decrease in expense ratio from the current offering.

Ms. Nicholson went on to state that index funds are very comparable commodity like products. What it really comes down to is the fee and the tracking of the targeted index. These two targeted indexes are slightly different, but they are very broad reasonable indexes to track for an index fund. Because of that lower expense ratio and that exposure to Canada, Ennis Knupp believes the FTSE Index Fund is a more compelling choice for the Plan. The one drawback that applies to both the FTSE fund and the Total International Stock Index Fund is that they do have the redemption fee. This means if a participant were to make a withdrawal or a change in their asset allocation within 60 days, there is a 2% redemption fee associated. The redemption fee component also disqualifies the fund from being included in the managed account service provided by the Plan due to the automatic rebalancing function that occurs on a more frequent basis.

Questions and comments ensued.

SCHEDULED ITEMS (CONTINUED):

ACTION BY: (Ceschin) Replace the Vanguard Total International Stock Fund with the FTSE All-World ex-U.S. Index Fund as recommended by Ennis Knupp in their memorandum dated July 22, 2008. 5-0

AYES: Grady, Walker, Ceschin, Russell, and Cady (Chair) – 5

NOES: 0

6. 08DC28 Discussion of potential request for proposals (RFP) for Federal Deposit Insurance Corporation (FDIC) protected fixed income fund.

00:12 The Chairman indicated this item was put on the agenda for Committee discussion. The Plan offers the North Shore Savings Fund, which is a fixed income asset type of fund. Each month there is an interest rate credited to participants for the prospective month. The history of North Shore Savings was reviewed. Back in 1984, it was required that the Plan have at least two fixed income options, with one being FDIC insured. This requirement still remains from the initial County Board resolution. The North Shore option fulfills the FDIC insured option. The Plan also includes the Stable Value Fund. There can be interplay between the two, which causes concern about people going back and forth, and the possibility of closing the Stable Value Fund to transfers. The Chairman indicated that it was brought to his attention that the product has never been made available for competitive bid. He went on to state that this would be a good time to test the market to see if there would be another FDIC-insured option that might be interested. The current credited interest rate is good, but maybe it could be better. It was also discussed that a new arrangement might guarantee a minimum interest rate possibly tied to U.S. Treasury Bills so that competing proposals could be compared.

Questions and comments ensued.

ACTION BY: (Grady) Draft a Request for Proposals (RFP) for the current FDIC Insured option for the Committee's review at the next scheduled meeting. 5-0

AYES: Grady, Walker, Ceschin, Russell, and Cady (Chair) – 5

NOES: 0

7. 08DC29 From Great-West Retirement Services, Second Quarter Report and update on recordkeeping enhancements. **(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)**

APPEARANCES:

Charmaine Martin, Great-West Retirement Services

Darryl Collier, Great-West Retirement Services

SCHEDULED ITEMS (CONTINUED):

00:27 Ms. Martin provided an overview of the quarterly report (copy attached to original minutes) by stating the focus of 2008 is maintaining Plan assets. Great-West is working with Milwaukee County's Retirement Division in an effort to get information out to retirees encouraging them to stay in the Plan and rollover backdrop money into the Plan. These efforts include pre-retirement workshops, distributing fliers in retiree packets (copy attached to original minutes), and participation in monthly individual retirement group meetings. Efforts are also underway to update County forms and procedures, so employees have a better understanding of their options and how the County's 457 Plan can help them. Ms. Martin's review of the quarterly report provided numbers related to meetings held (group, office, and individual), enrollments and contributions, full distributions, rollovers into the Plan, realty investing, web hits, and service center calls.

Questions and comments ensued.

24:55 Mr. Collier stated Great-West is in the midst of finalizing the salary deferral processing enhancement. They will work with Hugh Morris, from DAS-IMSD, who will provide a Ceridian file that will give Great-West the current deferrals of all participants. This information will enable them to track changes. Full implementation is expected no later than mid September. Once this component is in place, online enrollment can begin. Mr. Collier added that the share class fund change is going to happen in October. Notifications will go out on the web in September. Great-West is currently reviewing the demographic data contained in the Ceridian file to ensure all the data elements are understood. Once the review is complete, Great-West will provide the Committee with a report.

The Committee took no action regarding this informational report.

8. 08DC30 Future regularly scheduled meetings of the Select Committee on Deferred Compensation:

- November 17, 2008
- Future Meetings TBD

(INFORMATIONAL ONLY, UNLESS OTHERWISE DIRECTED BY THE COMMITTEE)

00:01 The Chairman indicated that the next regularly scheduled meeting is November 17, 2008. There may be a special meeting held prior to that date to give the Committee an opportunity to review a draft of a proposed contract extension with Great-West. The draft is now in the hands of Ben Choice from Reinhart Boerner & Van Deuren (the Plan's attorney). A meeting will be scheduled to review and give final approval. The Chairman stated the contract

SCHEDULED ITEMS (CONTINUED):

must be approved by this Committee prior to it being submitted to the County Board for ratification.

The Chairman stated Committee members and consultants will be contacted in the next few weeks to find out availability for the 2009 meeting schedule.

This meeting was recorded. Committee files contain copies of the subject reports, communications, resolutions, and ordinances, which may be reviewed upon request to the Chief Committee Clerk. The official copy of these minutes, along with the audio recording of this meeting, is available in the County Board Committee Services Division.

Length of meeting: 9:04 a.m. to 11:40 a.m.

Adjourned,

Jodi Kapp

Committee Clerk

Select Committee on Deferred Compensation